Community Banks Still Outperforming Big Competitors

Continued from *page* 1

iness.

• The nation's agricultural economy – a major source of business for many community banks – continues to strengthen.

Impressive Returns

These points have helped the 100 most profitable community banks maintain an impressive average return on assets of 2.23% in 1989, on par with the 2.27% reported in 1988.

In contrast, the most profitable money center – First Chicago Corp. – reported a return on assets of 0.74% in 1989, while the 21 out of 26 superregionals profitable last year had an average return of 0.94%.

Commitment to Customers

Whether their primary business is consumer or corporate lending, many community bankers say it is their commitment to their customers that has enabled them to fend off competition from larger banks that enter their markets and charge less.

"Some of the chains will come in and cut rates to get their foot in the door, but they won't stay in the marketplace very long," said James R. Daniel, president of Friendly Bank in Oklahoma City. "We can compete with that pretty effectively."

Quick Answers on Loans

David Wierchering, vice president of the $66 million-asset San Benito Bank & Trust Co. in Texas said, "We don't have to go to Dallas or Houston to get an answer on loans."

"If a $35 million bank has to spend $35,000 for a compliance officer, that's a lot."

Kathleen Murphy
American Bankers Association

That means that the bank can turn around loan approvals faster than its competition – which includes the Texas affiliates of NCNB Corp. and Chemical Banking Corp. – and that customers will come back for more.

Industry is Shrinking

But even though their lending operations remain strong, community bankers fear that their industry is contracting. According to the Independent Bankers Association of America, there are 12,600 banks in the United States, down from 14,209 at yearend 1986.

Moreover, there are expected to be only 11,000 by yearend 1992, and many that disappear are expected to be small, independent banks.

Compliance Costs Rising

In addition, the cost of complying with regulation is driving up operating expenses at community banks.

According to a 1989 study by the American Bankers Association, banks typically spend 1% to 4% of their annual net income on regulatory compliance. And the smallest banks are believed to be hit the hardest.

"Staff resources are the burden," said Kathleen Murphy, director of the Community Bankers Council at the ABA. "If a $35 million bank has to spend $35,000 for a compliance officer, that's a lot."

According to the trade group's study, a bank with a staff of 10 needs to devote at least half of one employee's time to compliance issues.

Rookie Examiners

Laws like the Community Reinvestment Act can require labor-intensive recordkeeping operations. And even routine portfolio exams can trip up institutions.

"The smaller banks have the honor and the privilege of being examined by rookies that have just gotten out of supervisory school' said Kenneth A. Guenther, executive vice president of the Independent Bankers Association.

Overhead Going Up

Though community banks typically boast lower overhead than their larger counterparts, their expenses are rising faster.

At the 100 most profitable community banks, overhead equaled 3.06% of assets, up from 2.48% in 1988. That rise contrasts with stability at the average U.S. bank; the all-banks average was 3.40% of assets in 1989, 3.36% the year before, according to Sheshunoff Information Services, Austin, Tex.

A key factor for community banks has been the agriculture rebound. "The big plus in terms of community banking is that agriculture has been healthy," said Mr. Guenther. "And they have not been cursed by LBOs and LDC debt."

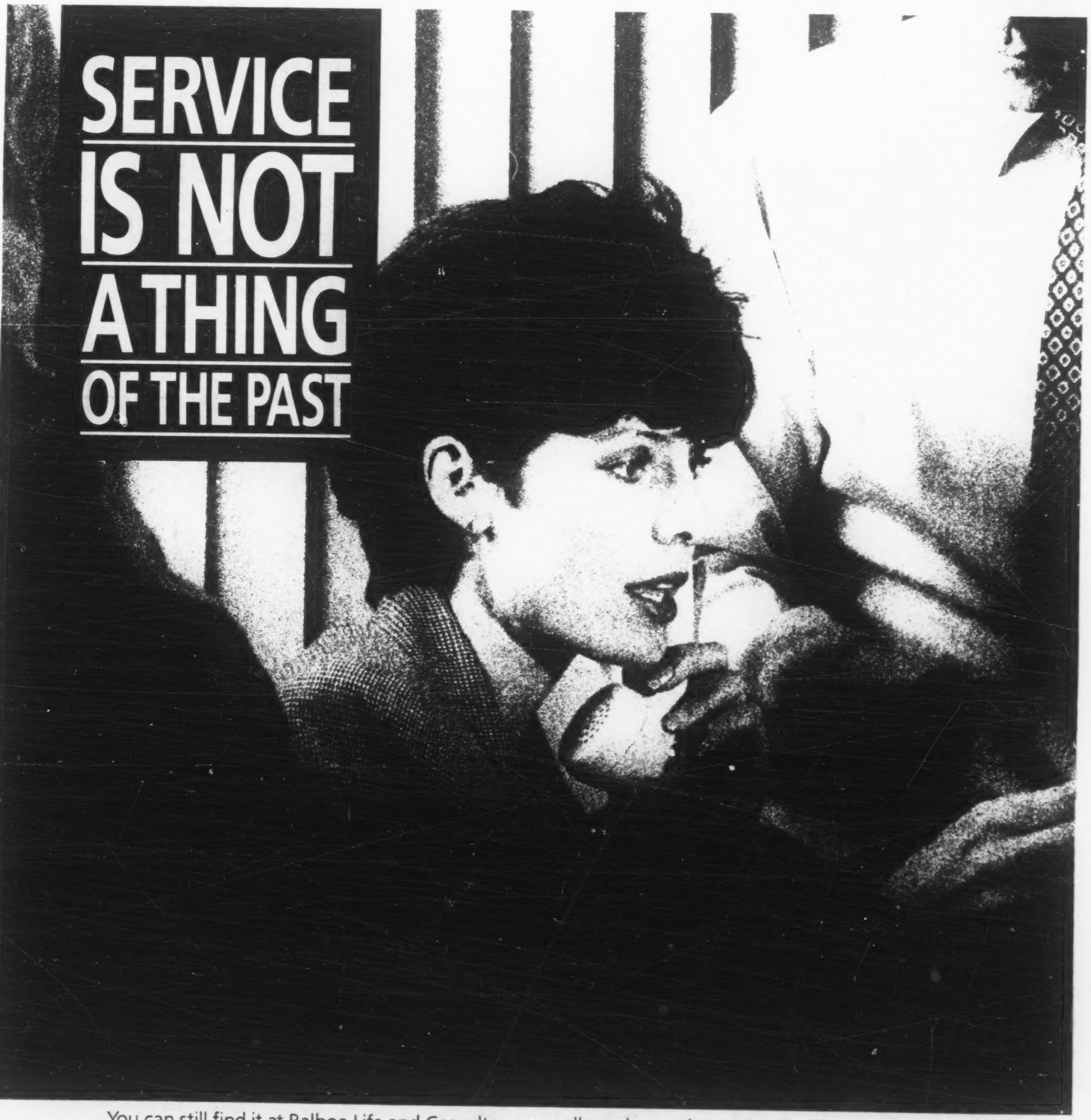
According to the Federal Reserve Board, the profitability of agricultural banks rose 10 basis points last year, to 1%. Moreover, profitability of agricultural banks has risen 60 basis points since 1986.

For small nonagricultural banks, the one-year rise was sharper – 20 basis points, to 0.9% of assets – but the increase since 1986 was only 30 basis points, half the agricultural banks' gain.

The survey also found that:

• The nation's top-performing community bank was Kentucky-Farmers Bank, Catlettsburg. The $105 million-asset retail bank had a 3.52% return on assets.

• Last year the 100 most profitable community banks averaged a return on average equity (ROE) of 19.67%, total assets of $89 million, total deposits of $76 million, net income of $1.8 million, and 45 full-time employees. In 1988, the top 100 averaged ROE of 18.52%, $83 million in assets, $70 million in deposits, and 41 employees. □



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Regional Breakdown of Top 100 Community Banks

Listed geographically by region, with return on assets for 1989

Rank 1989		ROA 1989	Rank 1988[1]
	New England Region		
12	Lyndonville Savings Bank & Trust Co., Vt.	2.59	19
39	Union Bank, Morrisville, Vt.★	2.19	18
78	Somersworth Bank, N.H.	1.97	126
	Midwest Region		
1	Kentucky-Farmers Bank, Catlettsburg, Ky.	3.52	2
7	Farmers Savings Bank, Spencer, Ohio	2.91	9
10	First Bank, Oak Park, Ill.★	2.64	43
18	Citizens Bank, Delavan, Wis.★	2.42	8
28	First National Bank of Michigan, East Lansing★	2.28	33
29	Houghton State Bank, Red Oak, Iowa★	2.26	49
31	Peoples State Bank, Hamtramck, Mich.	2.24	22
32	Winona National & Savings Bank, Minn.★	2.24	27
34	Mid America Bank South, Mankato, Minn.★	2.22	304
44	Kilbourn State Bank, Milwaukee	2.17	25
46	McCook National Bank, Neb.★	2.17	231
47	First Bank & Trust Co. of Illinois, Palatine★	2.16	39
49	Peoples Bank of Bullitt Cty., Shepherdsville, Ky.	2.15	10
50	Bank of Sun Prairie, Wis.	2.15	24
60	Northern State Bank of Thief River Falls, Minn.	2.08	58
61	Byron Center State Bank, Mich.★	2.07	28
67	Franklin County National Bank, Brookville, Ind. ★	2.04	77
68	First State Bank, St. Charles, Mo.★	2.03	87
72	Citizens Bank & Trust Co., Columbus, Neb.★	2.00	268
76	Berwyn National Bank, Ill.	1.98	346
77	St. Henry Bank, Ohio	1.97	32
84	Irving Bank, Chicago★	1.95	37
87	First Bank, Coon Rapids, Minn.★	1.94	149
88	Fowler State Bank, Ind.★	1.93	42
90	Ralston Bank, Neb.★	1.93	211
91	Elgin State Bank, Ill.★	1.92	73
92	Maywood-Proviso State Bank, Maywood, Ill.★	1.92	117
95	Commercial State Bank, Wagner, S.D.★	1.90	36
100	Lawrence National Bank & Trust Co., Kan.★	1.90	314
	Mid-Atlantic Region		
9	Putnam County National Bank, Carmel, N.Y.	2.74	4
19	National Bank of Stamford, N.Y.	2.41	6
22	National Bank of Coxsackie, N.Y.	2.34	13
26	First National Bank, Wyoming, Del.	2.29	57
33	First National Bank, Wyoming, Pa.	2.24	162
54	Centreville National Bank, Md.	2.12	41
56	Denver National Bank, Pa.	2.11	34
59	New Tripoli National Bank, Pa.★	2.09	53
64	Middletown Valley Bank, Md.	2.05	101
71	First National Bank, Dryden, N.Y.	2.00	64
79	Bank of Akron, N.Y.	1.97	199
89	Neffs National Bank, Pa.★	1.93	63
	Southeast Region		
4	Business Bank, Vienna, Va.★	3.31	12
8	Key Biscayne Bank & Trust Co., Fla.	2.91	3
11	Hinesville Bank, Ga.★	2.61	11
17	McDowell County National Bank, Welch, W.Va.	2.43	7
30	Farmers Bank, Windsor, Va.	2.24	17
	Southeast Region (Continued)		
35	Union Bank of Mena, Ark.★	2.21	75
37	Citizens Bank, Fayette, Ala.★	2.20	21
40	First Security Bank, Searcy, Ark.	2.19	52
41	Citizens Bank, Carthage, Tenn.	2.18	23
42	Middleburg National Bank, Va.	2.18	45
45	First National Bank, Clifton Forge, Va.	2.17	76
51	Bank of Mountain View, Ark.	2.14	14
52	Bank of Southside Virginia, Carson, Va.★	2.14	54
58	Bank of Roane County, Harriman, Tenn.	2.10	341
66	Danville State Bank, Ark.★	2.04	31
70	Bank of Waldron, Ark.★	2.01	161
82	Citizens Bank, Moulton, Ala.★	1.96	151
86	Farmers & Merchants Bank-Eastern Shore, Onley, Va.	1.95	89
96	First National Bank, Shelby, N.C.	1.90	150
	Southwest Region		
3	First State Bank, Dimmitt, Tex.★	3.38	114
5	First State Bank, Columbus, Tex.	3.02	1
6	San Benito Bank & Trust Co., Tex.★	3.02	360
14	Pitkin County Bank & Trust Co., Aspen, Colo.★	2.49	38
16	Bank of Sunset & Trust Co., La.	2.44	30
20	Western National Bank, Odessa, Tex.★	2.41	50
36	Metairie Bank & Trust Co., La.	2.21	90
53	Bunkie Bank & Trust Co., La.★	2.13	343
55	Lamesa National Bank, Tex.★	2.12	357
57	Citizens Bank, Rusk, Tex.	2.11	154
65	First National Bank, Taft, Tex.	2.05	129
73	First State Bank of Stratford, Tex.★	1.99	74
74	First National Bank, Falfurrias, Tex.	1.99	148
94	Bank of Commerce, Stilwell, Okla.	1.90	20
98	First National Bank, Floydada, Tex.★	1.90	207
	Western Region		
2	Pacific Heritage Bank, Torrance, Calif.	3.48	313
13	Western Community Bank, Corona, Calif.★	2.54	94
15	Pioneer Trust Bank NA, Salem, Ore.★	2.46	5
21	San Gabriel Valley Bank, El Monte, Calif.	2.39	269
23	Valley Bank, Moreno Valley, Calif.	2.33	160
24	City Bank, Lynwnwood, Wash.	2.33	193
25	Mechanics National Bank, Paramount, Calif.	2.33	214
27	Saratoga National Bank, Calif.★	2.29	81
38	Mission Viejo National Bank, Calif.★	2.20	106
43	Puyallup Valley Bank, Wash.	2.18	68
48	Redding Bank of Commerce, Calif.★	2.16	105
62	Torrance National Bank, Calif.	2.06	79
63	Western Security Bank NA, Burbank, Calif.★	2.06	339
69	Pioneer Bank, Fullerton, Calif.★	2.01	116
75	Regency Bank, Fresno, Calif.	1.99	338
80	County Bank, Merced, Calif.	1.97	245
81	Rancho Vista National Bank, Vista, Calif.	1.97	308
83	Charter Pacific Bank, Agoura Hills, Calif.	1.96	303
85	Valley of the Rogue Bank, Rogue River, Ore.★	1.95	65
93	Borel Bank & Trust Co., San Mateo, Calif.	1.92	275
97	Kerman State Bank, Calif.	1.90	167
99	Valley Bank of Kalispell, Mont.★	1.90	286

The New England Region consists of the following six states: Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont. **The Midwest Region** consists of 13 states: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. **The Mid-Atlantic Region** comprises Washington, D.C., Puerto Rico, and the following five states: Delaware, Maryland, New Jersey, New York, and Pennsylvania. **The Southeast Region** comprises 10 states: Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. **The Southwest Region** consists of the following six states: Colorado, Louisiana, New Mexico, Oklahoma, Texas, and Utah. **The Western Region** comprises 10 states: Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington, and Wyoming. **(★)** — The bank is a member of a one-bank holding company. **(1)**— Rank based on ROA for the full year 1988.

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Banks Dropping Out of Top 100

Banks that were in top 100 in 1988, listed geographically by region, with their 1989 ROA and 1989 ROA rank

Rank 1989		ROA 1989	Rank 9/88[1]
	New England Region		
--	Oxford Bank & Trust Co., Me.	1.17	84
	Midwest Region		
102	State Bank of Countryside, Ill.★	1.89	86
129	Park National Bank, Chicago★	1.78	72
131	First Guaranty National Bank, Martin, Ky.★	1.78	83
132	Bank of Prairie du Sac, Wis.	1.78	96
169	First National Bank of Gallatin, Mo.	1.71	50
170	Teutopolis State Bank, Ill.	1.71	88
239	Washington State Bank, Iowa★	1.62	84
292	Mid City Bank, Omaha, Neb.★	1.57	98
--	National Bank of America, Salina, Kan.★	1.22	45
•	Golden Valley Bank, Minn.[2]	1.22	49
--	Annandale State Bank, Minn.	1.19	94
--	First Bank of Marietta, Ohio★	1.01	57
	Mid-Atlantic Region		
141	First National Bank, Jeffersonville, N.Y.★	1.76	69
144	Brunswick B&T Co., Manalapan Twp. N.J.★	1.75	41
174	First National Bank of Palmerton, Pa.★	1.70	19
196	Peoples Bank of Unity, Plum Boro, Pa.	1.67	54
305	Bank of Millbrook, N.Y.	1.56	43
	Southeast Region		
101	Smackover State Bank, Ark.★	1.89	32
116	Brand Banking Co., Lawrenceville, Ga.	1.84	100
117	Citizens B&T Co. of Grainger, Rutledge, Tenn.★	1.83	64
118	Farmers Bank, Greenwood, Ark.	1.83	66
126	First National Bank of Polk Cty, Cedartown, Ga.★	1.80	87
128	First National Bank, Pontotoc, Miss.	1.79	63
137	First National Bank in Sylacauga, Ala.★	1.77	61
187	Union Bank & Trust Co., Bowling Green, Va.	1.68	74
220	Bank of Hiawassee, Ga.	1.64	71
241	Farmers & Merchants Bank, Holly Hill, S.C.★	1.62	67
268	Bank of Gravette, Ark.	1.59	75
303	First National Bank of West Point, Ga.★	1.56	55
316	Enterprise Bank, Ehrhardt, S.C.	1.55	26
331	Bank of Canton, Ga.★	1.53	91
361	Bank of La Fayette, Ga.★	1.50	60
--	Bank of Eastman, Ga.	1.38	51
--	Peoples Bank, Vanleer, Tenn.	1.31	17
--	First State Bank, Henderson, Tenn.	1.29	99
--	Etowah Bank, Canton, Ga.	1.08	76
--	Bank of Wiggins, Miss.	0.98	53
‡	Kislak National Bank, North Miami, Fla.	0.96	33
--	Fairburn Banking Co., Ga.★	-3.04	48
	Southwest Region		
†	Brighton Bank, Salt Lake City★	2.51	4
•	Farmers State Bank, Conrad, Mont.★	1.99	34
97	National Bank of Sallisaw, Okla.	1.88	1.98
114	Sacramento Commercial Bank, Calif.	1.84	40
280	Community First Bank, Clearfield, Utah	1.58	78
324	Arp State Bank, Tex.	1.54	21
328	First State Bank, Overton, Tex.★	1.54	95
336	First National Bank, Refugio, Tex.	1.52	93
--	Barnes Banking Co., Kaysville, Utah	1.45	35
--	First National Bank, Hebronville, Tex.	1.40	92
--	Bank of Commerce, Idaho Falls, Idaho	1.38	65
--	First Enterprise Bank, Oklahoma City	0.87	77
--	Union Bank & Trust Co., Denver★	0.83	23

(1)— ROA rank was based on an ROA calculated by annualizing net income for the first nine months of 1988. **(†)**— Owned by a 1-bank holding company in 1988. **(‡)**— Assets were below $50 million on Dec. 31, 1989 **(‡)**— Assets were above $200 million on Dec. 31, 1989. **(•)**— Became a subsidiary of a multibank holding company in 1989. **(2)**— Now known as Marquette Bank Golden Valley.

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Rx for Thrift Ills: Generate Fees And Cut Costs

By SANFORD ROSE

The average thrift in the country is at least 25 basis points shy of breakeven and perhaps 40 basis points shy of economic viability, according to a rough but perhaps not unrealistic analysis.

Yet it may be possible for many thrifts to temporarily make up all, or nearly all, of this economic shortfall, not in ways usually envisioned but rather through a combination of draconian expense reduction and nontraditional fee generation.

The average home-mortgage-oriented thrift cannot look forward to an especially lush net interest margin. Indeed, according to some analysts, the spread on mortgage loans is probably negative, if one makes allowance for the cost of match-funding and for the cost of the borrower's option to prepay without penalty. Many thrifts, however, report a positive spread precisely because they aren't match-funding and they don't factor out the cost of the prepayment option – an estimated 50 to 75 basis points.

Comment

Profiting from the Premium

But at times during the past decade, the spread on mortgage loans has been marginally positive, even on a match-funded basis. Additionally, mortgage lenders can eke out a supplementary spread from their liquidity portfolios. And a case can be made that liquidity assets should not be match-funded.

It can be argued that some relatively safe extra profits can be garnered by mismatching in the under-one-year part of the yield curve, provided this is done in conformity with the liquidity premium. In other words, since there is a liquidity premium in Treasuries that reaches a maximum around the one-year maturity – that is, longer Treasuries command structurally higher yields than shorter ones – a thrift that mismatches between, say, very short liabilities whose rates are tied to Treasuries and one-year T-bills will of course earn more money than if it simply match-funds.

This type of mismatch creates some interest rate risk, but not a great deal, and the mismatch is likely to prove successful more than 50% of the time. In order to take advantage of this opportunity, a thrift should probably shorten the maturity of its non-Treasury liquidity assets (since these do not contain a liquidity premium) while simultaneously lengthening, up to a year, the

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PETER RONA of IBJ Schroder Bank & Trust claims that U.S. banks cannot provide the quality of products and services needed to compete overseas. *Page 10*

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NORWEST CORP. and Security Pacific Corp. have sharply increased their commercial paper outstanding over the past year, while most banks have shied away from purchased funds. *Page 32*

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GOLDMAN, SACHS & Co., has become the second brokerage house to enter the highly competitive, fee-based global custody business, traditionally the domain of banks. *Page 3*

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A FEDERAL APPEALS court decision that heightened bankers' fears of environmental liability claims is not expected to hold up on further appeal. *Page 8*

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MANAGING CHANGE effectively will be the key to survival into the 21st century, according to Charles R. Haywood and Charles E. Wilson. *Page 4*

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LATE NEWS

Chase Downgraded

Moody's Investors Service on Monday lowered its ratings on the debt of Chase Manhattan Corp. and some of its units, citing deteriorating quality in Chase's commercial real estate portfolio.

Agency Halts 1-Borrower Rule's Easing

By ROBERT M. GARSSON

WASHINGTON — The Treasury Department has put on hold a proposal by the Office of Thrift Supervision to phase in new limits on the amount a thrift can lend to one borrower, industry sources said Monday.

Treasury officials were taken aback at the negative reaction prompted by early reports of the proposed interim rule and have decided to delay a decision on it, the sources said.

***Post* Editorial Roils Waters**

Of particular concern to Bush administration officials was an editorial in the *Washington Post* calling the rule "grotesque" and arguing that it harkens back to the tradition of forbearance that helped bring on the thrift crisis.

However, the government is under considerable pressure from lenders and the politically powerful home construction and development industry to adopt the less stringent phasing in. As a result, the department could decide fairly soon to bless the plan.

"It's not really a thrift issue so much as it is a homebuilders' issue," said one thrift lobbyist. "Because of that, everybody wants some wiggle room."

The thrift-bailout law passed

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RTC to Market Assets In $500 Million Pieces

By DEBRA COPE

WASHINGTON — In its latest appeal to institutional investors, the Resolution Trust Corp. plans to market bad loans, junk bonds, and other hard-to-sell financial assets from failed thrifts in $500 million chunks.

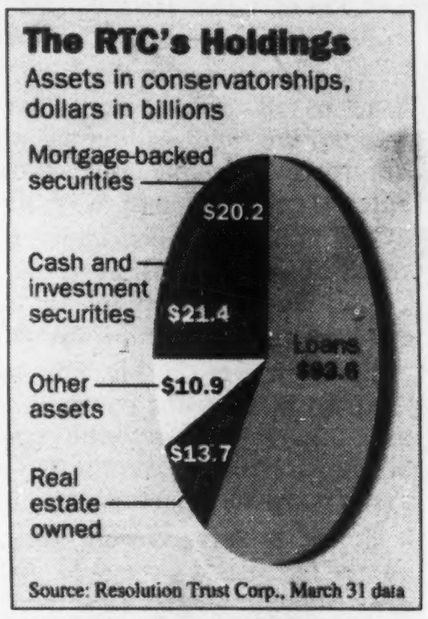
The agency is also likely to reduce down payments and ease other terms in its seller-financing program. Both measures would be part of a stepped-up effort to attract buyers of assets seized by the thrift-bailout agency.

Making Assets Marketable

Through the bulk-sales approach, the agency will move loans and other assets that are not readily marketable, RTC Chairman L. William Seidman said in a telephone interview Monday. These assets include junk bonds, derivative securities, real estate, and a sizable amount of bad loans.

Roughly half of the workout agency's $174 billion-asset portfolio consists of loans that are nonperforming or do not meet the underwriting standards of the secondary mortgage market, Mr. Seidman said.

Investment analysts said pension funds, insurance companies, and other big investors find it inefficient to buy up RTC assets piecemeal and will be more likely to bid on bulk sales. The



RTC will also improve financing terms to accelerate sales.

Wooing Institutions

"This is where the institutional money comes into play," Bert Ely, a consultant and close watcher of RTC activities, said of the bulk sales approach.

Mr. Seidman concurred, saying he hopes, with the bulk sales, "to attract large buyers."

The RTC will ask its policy-setting body, the RTC Oversight Board, to authorize expanded seller financing to augment the sales, he said.

Currently, the RTC may extend financing to buyers only if no other loan is available. A 15% down payment is required; the

See **RTC** *page* **26**

Breeden Turns SEC Sights on Banks, S&Ls

By BARBARA A. REHM

WASHINGTON — Banks and thrifts are facing heightened scrutiny these days from an unusual source – Richard C. Breeden and his Securities and Exchange Commission.

The agency is in the midst of a sweeping investigation of financial institutions' compliance with securities laws. Of particular interest is whether potential loan losses are being disclosed adequately to investors.

Some bank attorneys are worried about the probe, in part because of the possibility of embarrassing publicity. The SEC publicly announces the results of its investigations – a big switch from the hush-hush approach of bank and thrift regulators.

But observers also wonder how muscle flexing by the SEC, traditionally a bit player in bank supervision, might change the regulatory balance of power.

Mr. Breeden is already on the record as saying the SEC should supervise the securities activities of bank holding companies – such as the underwriting of commercial paper and corporate debt – which are now regulated by the Fed.

Van Howell

Some believe that Mr. Breeden, who became SEC chairman eight months ago, has an even larger agenda: to make the SEC the top regulator of bank and thrift holding companies.

Sees Larger Role for Agency

Mr. Breeden scoffs at that speculation. But the 40-year-old lawyer, who has close ties to President Bush and helped develop the administration's thrift-bailout plan, acknowledges that he sees the SEC playing a larger role.

The SEC chairman figures to be a key player in the debate on Capitol Hill next year over how to reform the financial services arena. So his views are being carefully watched.

For one thing, he does not think that banks deserve special treatment when it comes to complying with securities laws.

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PEOPLE *in the news*

Contractor Caught in Web Of RTC's Thrift Cleanup

By RICHARD LAYNE

Robert Foraker had his business stripped away by the Resolution Trust Corp., and there does not appear to be anything he can do to get it back.

Mr. Foraker owns a computer software and consulting company in Canton, Ohio. He is caught in the middle of the massive, sometimes messy cleanup of the thrift crisis.

As a contractor to the failed Broadview Savings Bank in Cleveland, he fell victim to one of the extraordinary powers that Congress granted the thrift-bailout agency – the ability to cancel preexisting contracts. The same policy allowed some seized thrifts to lower the interest rates they had committed to pay on certificates of deposit.

Mr. Foraker has considered becoming the first to take advantage of an obscure provision in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 that allows parties aggrieved by the bailout to sue the government for compensatory damages.

Legal experts say Mr. Foraker has little chance of regaining his contract through the courts. Some have described him as quixotic and unlikely to represent a reliable test case of the RTC's power to abrogate contracts. But the fact remains that the bailout has hurt his systems consulting company.

Before Broadview went under – its deposits have since been assumed by Society Corp. – Mr. Foraker sued Broadview over his contractual right to market software developed at the savings bank.

"I've risked everything. I may be one of the homeless, but I won't quit."

Robert Foraker
I&I Group Inc.

While Mr. Foraker views the RTC's discontinuation of his contract as a moral injustice, he says the RTC is so big and powerful that a lawsuit might be counterproductive.

"I have too much business potential with the government," said Mr. Foraker, who believes he can sell processing business to the RTC in its role as manager of thrifts.

Until last fall, Mr. Foraker's I&I Group Inc., a two-man operation, was in business to sell banking software developed at Broadview Savings before it became a ward of the government.

20 Years in Business

A technology consultant and software specialist for 20 years, Mr. Foraker, 45, had helped developed systems for several banks in Ohio, although not for Broadview.

The RTC sent him a letter on Nov. 17, 1989, that discontinued the marketing contract between the bank and I&I Group.

Mr. Foraker said he lined up investors and marketing agreements with other companies. He said he invested $5 million to get the software ready to market. Much of that money went to purchase an IBM computer to run the software.

"I've risked everything," he said. "I may be one of the homeless, but I won't quit." He accused the RTC of canceling his contract so it could peddle the software as part of Broadview's assets. RTC officials scoff at that charge.

Software Not an Issue

"When we are sitting down with bidders on a $1.5 billion institution, the existence of a software package that may or may not have a marketing agreement attached to it is not going to make or break our ability to sell an institution," said an RTC spokesman.

The bank acquiring Broadview could sell the software that comes with it, the spokesman said. It could even sign a new contract with Mr. Foraker to sell the system.

Mr. Foraker was committed to pay Broadview $300,000 for the exclusive rights to market the software, in installments, whenever he makes a sale. According to the bank's records, Mr. Foraker had paid only $20,000 of that obligation.

Litigation on All Sides

Mr. Foraker said he paid off only a small amount because he was forced to seek bankruptcy protection in 1988 – caused by legal expenses related to an earlier contract dispute with Broadview.

He eventually settled the dispute, which reaffirmed his right to sell the software. Meanwhile, the bankruptcy washed away his debt to the bank.

"The RTC could argue that it was a burdensome contract," said Richard Kniepper of Jones, Day, Reavis & Pogue, one of several lawyers who think Mr. Foraker has little chance of prevailing. "He didn't pay and he took bankruptcy. He isn't reliable."

Mr. Foraker's bad luck from past dealings continues.

In 1988, he made his only sale of the software, for $30,000, to City Federal Savings and Loan in New Jersey. He said he sold cheaply to get cash for the legal costs of his Broadview dispute. City Federal agreed to supply him with a new version of the software, which would run on a more powerful IBM system.

City Federal went into receivership in January 1990. It is doubtful that Mr. Foraker will receive the new software. □

Don't Change Privacy Law, Consumers in Survey Say

By LINDA CORMAN

WASHINGTON — Most American consumers agree with the credit-reporting industry that existing privacy laws ought to be more energetically enforced before new, tighter laws are enacted, according to a recent Louis Harris & Associates survey.

The poll commissioned by Equifax Inc., a leading credit-reporting company, found Americans are more concerned than ever about corporate and governmental threats to privacy. But the handling of individual credit histories is not among their gravest concerns.

While seven of 10 say consumers have lost control over the personal credit information that companies exchange, about two-thirds say they have a high or moderate degree of trust in the way credit bureaus and insurance companies use information on individuals.

Equifax released the results Monday, a day before three bills aimed at broadening disclosures of consumer credit were to be debated in a hearing of the House Banking Committee's consumer affairs and coinage subcommittee. The Harris organization surveyed 2,264 consumers and 916 business executives from January through April.

Present System Favored

In the findings, Atlanta-based Equifax found support for the view that before new privacy laws are adopted or existing laws amended, consumers should be better informed about the rights they have. The survey found that 55% favor protecting con-

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Mixed Views of Privacy
Of Harris Poll respondents:

- **95%** say it is acceptable to check credit records of loan applicants
- **79%** are concerned about privacy threats
- **70%** say consumers have lost control over data given to businesses and government
- **55%** say the present system of privacy regulation is adequate
- **55%** have been turned down for credit; three-fourths of them think their bill-paying records warranted acceptance
- **25%** are highly or moderately distrustful of business and government

Source: Equifax Inc.

Freddie Mac Expected to Cut Pass-Through Period

By PHIL ROOSEVELT

NEW YORK — In a move that could attract more securitization business from lenders, the Federal Home Loan Mortgage Corp. is expected to announce today a fundamental change in the structure of its mortgage-backed securities.

Industry sources said that Freddie Mac, as the agency is called, plans to reduce markedly the time it takes to give investors their first monthly payments. That, in turn, would probably increase the securities' prices, helping originators who swap their loans for securities and then sell the securities.

Currently, investors in Freddie Mac securities do not get their first payments until 75 days after the securities are issued, versus 55 days for securities of the Federal National Mortgage Association, or Fannie Mae. As a result, analysts said, investors pay slightly less for Freddie Mac securities.

At a press conference slated for this afternoon in New York, Freddie Mac will announce a reduction of its payment period to as little as 45 days, according to sources who requested anonymity. The change would affect all new issues, the sources said, and holders of outstanding issues may get the option to convert to the new structure. A Freddie Mac spokeswoman declined to comment.

Separately, the agency is expected to announce a large securitization deal with Citicorp, the nation's biggest originator and servicer of home mortgages.

Big Citicorp Deal Predicted

Some sources speculated the deal would top a transaction that Freddie Mac carried out last month with Great Western Bank, continuing a trend of bigger and bigger securitizations.

The Great Western transaction, involving $1 billion in mortgages, was the largest securitization ever done by Freddie Mac in one step.

Spokeswomen for Citicorp and Freddie Mac refused to comment. □

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COMMENT/ *By Charles R. Haywood and Charles E. Wilson*

Managing Change Is the Key to Survival

U.S. banks are facing economic, political, and technological changes that could cause "future shock," the term Alvin Toffler coined in 1970 to describe the extreme disruption and dysfunctional behavior resulting when change occurs so rapidly that it cannot be assimilated.

Aggressive managers can turn this potential crisis into opportunity. The challenge, however, is formidable.

Banks must adapt to accommodate the external changes of shifting demographics, deregulation, and global competition as well as new technologies. Yet they cannot do that successfully unless they also effectively manage the internal impact of these changes.

Five Critical Factors

To develop a strategy for change, managers must get a handle on the five factors that are shaping banks and other financial institutions as the 21st century draws near.

• Global competition is becoming an issue for all banks as financial institutions around the world become more involved in nontraditional products.

Also, product and service expansion in the United States by foreign institutions will lead to more mergers among U.S. banks and to increasing affiliations with mortgage lenders, insurance companies, and other financial services providers.

These new alliances will challenge banks to create a harmonious management environment as different corporate cultures come together.

• Banks face a personnel crisis because of slowing growth in the U.S. labor force. As entry-level labor becomes more expensive and harder to find, managers will be forced to apply new technologies to improve productivity and streamline operations.

Furthermore, the need for well-designed programs for professional development of present employees must be given high priority.

• New technologies and service-delivery mechanisms also can help meet the impending workforce problems. Banks will be compelled to implement these new technologies to contain costs and provide competitive services in response to customer demands.

• In the face of increasing competition from nontraditional financial services providers and foreign firms, banks must focus on growth strategies that are based on customer needs and not just on the expansion of product offerings or adding new customers.

Developing a sales culture that is driven by customer needs, in which traditional "order takers" become "order getters," is imperative. For many banks, this is foreign territory: outside help may be required.

• To address the rapidly changing regulatory environment in the United States and abroad, banks and other financial intermediaries must develop ways to comply with regulations while quickly adapting operations to meet competitive and economic challenges.

"Banks must focus on growth strategies that are based on customer needs."

Charles R. Haywood
ODR Inc.

Financial institutions would be well advised not to merely anticipate the changing regulatory environment but to constructively influence the direction of legislation.

Beyond Intuition

Many bank management teams have, in the past, guided their institutions through difficult transitions. Yet when asked how they were so successful, many managers are unable to articulate the specific techniques or skills they employed.

These "unconsciously competent" managers possessed intuitive skills derived from long experience. Our research shows that those who manage change have a number of characteristics in common.

They understand what motivates change. Just because a contemplated direction is interesting or intellectually stimulating is no guarantee that the process of change will succeed. Change is motivated only by pain.

People or organizations will not change unless they perceive that it will be more painful – in terms of increased problems or lost opportunities – to continue operating in the current manner.

Change is a process, not an event. A manager cannot simply send out a memo that reads, "We will become a market-driven bank tomorrow at 3 p.m." A transition period of loosening old habits and assimilating new behavior is always necessary to avoid costly long-term resistance.

Resistance Is Natural

Successful managers understand that resistance to change will always arise, even if the change is perceived as positive. People do not resist change as such; they resist the disruption that change brings in their lives.

The disruption caused by a merger, for example, can be difficult to detect. Employees may mouth acceptance, but their behavior may reflect strong resistance.

Transition periods are times of great ambiguity, typified by low stability, severe emotional distress, and high, often undirected energy. Employees often place increased importance on issues of control and high value on past patterns of operation. As a result of all these factors, conflicts increase.

Put Energies in Harness

The key to managing this ambiguity and resistance is to encourage overt rather than covert

See **COMMENT** *next page*

Mr. Haywood is director of research at ODR Inc., an international consulting firm based in Atlanta. Mr. Wilson is executive vice president of BMR Financial Group, Atlanta.

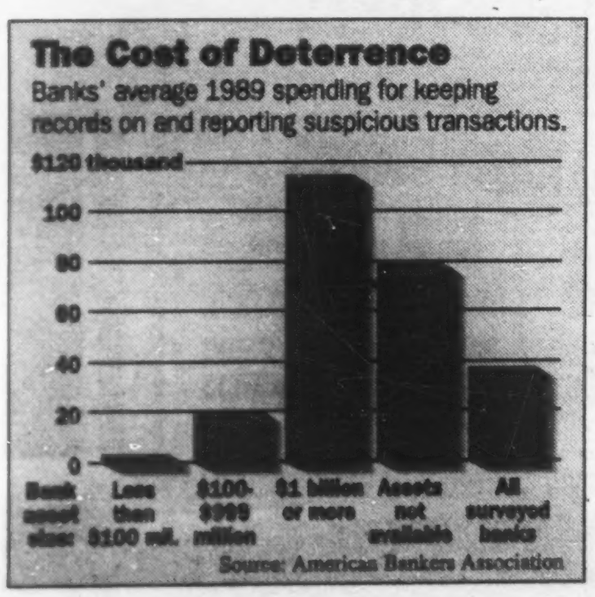
CRIME BLOTTER/ *By Tom Leander*

The War on Laundering

Banks spent more than $129 million in 1989 on required record-keeping and reporting procedures for suspicious transactions, according to a survey on money-laundering deterrence by the American Bankers Association.

In a sample of 548 banks of all sizes, the ABA found average compliance costs ranging from $3,733 for small banks to $114,360 for large banks.

The average large bank filed 6,057 reports annually, while the average smaller bank filed only 14. This number has increased steadily since 1985, the survey found, largely because of increasing federal scrutiny of bank fraud and greater public attention on money laundering.



The banks were asked if they believe that currency transaction reports are an effective deterrent to crime. Only 7% of the banks were aware of any prosecutions that resulted from filing the reports or alerting authorities about suspicious transactions. One in four banks were unsure whether regulatory agencies are doing all they can do to attack the problem; one in three said the agencies are not doing enough.

* * *

Heist Suspect Dies in Cell

A Boston man who allegedly pulled off three bank robberies in less than an hour on June 4 was arrested the following day and died in his jail cell of an apparent drug overdose, according to police.

Stephen Price, 34, allegedly robbed a Pioneer Financial office in the south end of Boston at 11:07 a.m. He next allegedly robbed a BayBanks branch, several blocks away, at 11:21, then moved to a nearby suburb, Brighton, to hit New World Bank.

The robber allegedly showed a handgun at all three banks and escaped from each with an undetermined amount of cash.

Police said Mr. Price became a suspect when they stopped his car and found an illegal sawed-off shotgun in the vehicle. After he was in custody on the weapons charge, police said, they discovered he was wanted on several warrants, including one for bank robbery.

Eyewitness accounts led police to believe that Mr. Price also pulled off the triple bank heist.

The investigation into Mr. Price's death is pending. Police could not explain how Mr. Price might have obtained narcotics in the jail cell.

Mr. Price was a suspect in eight other bank robberies in the Boston area, police said.

* * *

Sentencing in Fraud Case

The former chief executive of a bankrupt clothing store franchise was sentenced last week to six months in a halfway house for bank fraud and securities fraud.

Joseph Wolfer of Cresskill, N.Y: told U.S. District Judge H. Lee Sarokin in Newark, N.J., that he perpetrated the frauds because he had big dreams for Oliver's Stores. He operated the franchise in New York, New Jersey, and Connecticut.

The judge ordered Mr. Wolfer to make restitution of $700,000 to former Oliver Stores shareholders. He also sentenced Mr. Wolfer to five years probation with 500 hours of community service each year.

Mr. Wolfer, 47, admitted falsifying company financial statements to help Oliver's obtain a $2.95 million loan from Midlantic National Bank and a $1.5 million loan from Manufacturers Hanover Trust Co. The false financial information was used to raise $7.8 million in an initial public offering, according to U.S. attorney Samuel A. Alito in Newark, N.J., who prosecuted the case.

Mr. Wolfer pleaded guilty to creating false invoices and bills of lading to make it appear that another apparel company, Maspeth Industries, had purchased $689,775 of inventory in 1985 and 1986. □

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